

**REGIONAL TRANSIT AUTHORITY (REGION III)
INDEPENDENT AUDITORS' REPORTS
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2015 AND 2014**

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REGIONAL TRANSIT AUTHORITY (REGION III)
OFFICIALS
JUNE 30, 2015

EXECUTIVE DIRECTOR Hugh Lively

BOARD OF DIRECTORS

Officers:

Chairperson Al Bloemendaal
Vice Chairperson Ed Noonan
Secretary-Treasurer Tim Schumacher

Board Members:

Buena Vista County Dale Arends

Clay County Burlin Matthews

Dickinson County Bill Leupold

Emmet County Tim Schumacher

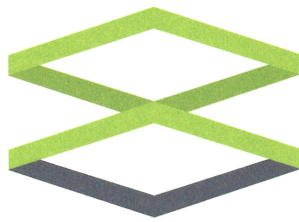
Lyon County Merle Koedam

O'Brien County Dan Friedrichsen

Osceola County Mike Schulte

Palo Alto County Ed Noonan

Sioux County Al Bloemendaal



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Regional Transit Authority (Region III)
Spencer, IA 51301

Report on the Financial Statements

We have audited the accompanying financial statements of Regional Transit Authority (Region III), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Regional Transit Authority (Region III) as of June 30, 2015 and 2014 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information included in the schedule of program expenses, schedule of administrative expenses, and the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2015, on our consideration of Regional Transit Authority's (Region III) internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Regional Transit Authority's (Region III) internal control over financial reporting and compliance.

Wintner, Starn Co., LLP

September 23, 2015
Spencer, Iowa

REGIONAL TRANSIT AUTHORITY (REGION III)
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current Assets:		
Cash	\$1,452,367	\$ 655,811
Accounts receivable - net of allowance for doubtful accounts of \$1,500 for 2015 and 2014	281,693	146,589
Governmental receivables	3,153	4,304
Prepaid expense and other assets	<u>45,300</u>	<u>27,585</u>
Total Current Assets	<u>1,782,513</u>	<u>834,289</u>
Property and equipment	5,549,932	5,607,807
Less accumulated depreciation	<u>(4,548,974)</u>	<u>(4,312,652)</u>
Property and Equipment - Net	<u>1,000,958</u>	<u>1,295,155</u>
 TOTAL ASSETS	 <u>\$2,783,471</u>	 <u>\$2,129,444</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 42,641	\$ 59,646
Accrued expenses	92,578	79,784
Accrued vacation	<u>36,977</u>	<u>32,088</u>
Total Current Liabilities	<u>172,196</u>	<u>171,518</u>
Net Assets:		
Unrestricted:		
Undesignated	1,508,444	530,259
Board designated	<u>160,766</u>	<u>132,512</u>
Total Unrestricted Net Assets	1,669,210	662,771
Temporarily restricted	<u>942,065</u>	<u>1,295,155</u>
Total Net Assets	<u>2,611,275</u>	<u>1,957,926</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$2,783,471</u>	 <u>\$2,129,444</u>

REGIONAL TRANSIT AUTHORITY (REGION III)
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>
PUBLIC SUPPORT AND REVENUES:			
Operating grants	\$1,126,207		\$1,126,207
Local operating	140,004		140,004
Local capital	33,853		33,853
Contract services	1,783,904		1,783,904
Non-contract special services	69,708		69,708
Fares	129,330		129,330
In-kind revenue	368,317		368,317
Investment income	2,819		2,819
Miscellaneous income	<u>4,107</u>		<u>4,107</u>
TOTAL PUBLIC SUPPORT AND REVENUES	<u>3,658,249</u>		<u>3,658,249</u>
EXPENSES:			
Program	1,854,677		1,854,677
Administrative	442,053		442,053
In-kind expense	368,317		368,317
Provision for depreciation	3,263	\$ 316,186	319,449
Loss on sale of equipment	<u>20,404</u>	<u>20,404</u>	<u>20,404</u>
TOTAL EXPENSES	<u>2,668,310</u>	<u>336,590</u>	<u>3,004,900</u>
NET ASSETS RELEASED FROM RESTRICTION .	<u>16,500</u>	<u>(16,500)</u>	
INCREASE (DECREASE) IN NET ASSETS	1,006,439	(353,090)	653,349
NET ASSETS AT BEGINNING OF YEAR	<u>662,771</u>	<u>1,295,155</u>	<u>1,957,926</u>
NET ASSETS AT END OF YEAR	<u>\$1,669,210</u>	<u>\$ 942,065</u>	<u>\$2,611,275</u>

REGIONAL TRANSIT AUTHORITY (REGION III)
 STATEMENTS OF ACTIVITIES - Continued
 FOR THE YEAR ENDED JUNE 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>
PUBLIC SUPPORT AND REVENUES:			
Operating grants	\$1,015,880		\$1,015,880
Local operating	129,143		129,143
Local capital	49,101		49,101
Contract services	711,100		711,100
Non-contract special services	61,771		61,771
Fares	144,679		144,679
Fuel tax refunds	4,137		4,137
In-kind revenue	383,074		383,074
Investment income	1,488		1,488
Miscellaneous income	429		429
TOTAL PUBLIC SUPPORT AND REVENUES	<u>2,500,802</u>		<u>2,500,802</u>
EXPENSES:			
Program	1,808,562		1,808,562
Administrative	411,751		411,751
In-kind expense	383,074		383,074
Provision for depreciation		<u>\$ 440,496</u>	<u>440,496</u>
TOTAL EXPENSES	<u>2,603,387</u>	<u>440,496</u>	<u>3,043,883</u>
DECREASE IN NET ASSETS	(102,585)	(440,496)	(543,081)
NET ASSETS AT BEGINNING OF YEAR	<u>765,356</u>	<u>1,735,651</u>	<u>2,501,007</u>
NET ASSETS AT END OF YEAR	<u>\$ 662,771</u>	<u>\$1,295,155</u>	<u>\$1,957,926</u>

REGIONAL TRANSIT AUTHORITY (REGION III)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 653,349	\$ (543,081)
Adjustments to reconcile the increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation	319,449	440,496
Loss on sale of equipment	20,404	
(Increase) decrease in:		
Accounts receivable	(135,104)	(39,652)
Government receivables	1,151	43,993
Prepaid expense and other assets	(17,715)	21,650
Increase (decrease) in:		
Accounts payable	(17,005)	19,922
Accrued expenses	12,794	5,043
Accrued vacation	4,889	(2,040)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>842,212</u>	<u>(53,669)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(62,156)	
Proceeds from sale of equipment	16,500	
NET CASH USED BY INVESTING ACTIVITIES	<u>(45,656)</u>	<u> </u>
NET INCREASE (DECREASE) IN CASH	796,556	(53,669)
CASH BEGINNING OF YEAR	<u>655,811</u>	<u>709,480</u>
CASH END OF YEAR	<u>\$1,452,367</u>	<u>\$ 655,811</u>

REGIONAL TRANSIT AUTHORITY (REGION III)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Regional Transit Authority (Region III), doing business as RIDES, is a not-for-profit organization based in Spencer, Iowa, with offices in and services provided to a nine county area of Northwest Iowa. It is a regional transit authority which provides transportation services to the public through assistance from federal, state, and local funds. The Regional Transit Authority is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Iowa income tax law, which provides tax exemption for corporations organized exclusively for religious, charitable, or educational purposes.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Grant and contract revenue is recognized when earned. The grants and contracts are written on an expenditure reimbursement basis and, accordingly, grant and contract revenue is earned when allowable program expenditures are incurred.

Basis of Presentation

Net assets and revenues, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Authority and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Subject to donor-imposed stipulations that may be fulfilled by actions of the Authority to meet the stipulations or become unrestricted at the date specified by the donor.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Revenues that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. Expenses, other than depreciation and loss on sale related to temporarily restricted net assets, are reported as decreases in unrestricted net assets. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Management's Review

The Authority has evaluated subsequent events through the date of the independent auditors' report, which is the date the financial statements were available to be issued.

Cash and Cash Equivalents

Cash includes amounts in demand deposit accounts and money market funds.

For purposes of the statement of cash flows, the Authority considers all highly-liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

REGIONAL TRANSIT AUTHORITY (REGION III)
NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Accounts and Governmental Receivables

Reimbursement procedures used for grants and contracts may result in timing differences between program reimbursements and expenditures. Receivables from grantor agencies represent an excess of expenditures over reimbursements at year end and are considered entirely collectible.

The Authority grants credit to local organizations for services in the area. Accounts receivable are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is provided based on management's evaluation of potential uncollectible accounts receivable at year end. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

Property and Equipment

Property and equipment is stated at historical cost. Donated property and equipment is valued at estimated fair value on the date of donation. Depreciation has been provided using the straight-line method over the estimated useful lives of the respective assets, generally 5 to 40 years. Expenditures for maintenance, repairs, and minor replacements are charged to the current year, while the cost of major replacements and betterments is capitalized.

Compensated Absences

Employees of the Authority accumulate a limited amount of earned but unused vacation payable to employees. This liability has been computed based on rates of pay in effect at June 30, 2015 and 2014, respectively.

Advertising and Promotion

Advertising and promotion expenditures are charged to operations as incurred.

Board Designated Net Assets

During the fiscal year ending June 30, 2014, the governing board approved the establishment of a separate capital replacement reserve bank account with an initial transfer of \$130,000. In addition, 50% of local funding and any proceeds from the sale of equipment will be transferred to the capital replacement reserve account. The governing board designated that \$160,766 and \$132,512 be reserved for equipment replacement at June 30, 2015 and 2014, respectively.

The board has the authority to reverse its decision to designate the cash for equipment replacement; therefore, the designated cash is included as a current asset.

REGIONAL TRANSIT AUTHORITY (REGION III)
NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Temporarily Restricted Net Assets

Substantially all property and equipment is acquired with grant proceeds and is restricted for use in public transit. If the assets are sold before the end of their useful life, the percentage of the proceeds equal to the proportion of original grant funding must be returned to the grantor if the purchaser is not another transit agency. The net property and equipment balance recorded as temporarily restricted net assets totaled \$942,065 and \$1,295,155 at June 30, 2015 and 2014, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increase and decrease in net assets from operations during the period. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the 2014 financial statements have been reclassified to conform to 2015's presentation.

2. CASH AND POOLED INVESTMENTS

The Authority's deposits in banks at June 30, 2015 and 2014 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

3. PROPERTY AND EQUIPMENT

Property and equipment activity for the year ended June 30, 2015 was as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Land	\$ 39,164			\$ 39,164
Building	1,373,680			1,373,680
Transportation equipment	3,581,225	\$ 39,883	\$ 93,633	3,527,475
Shop equipment	53,211			53,211
Furniture and fixtures	560,527	22,273	26,398	556,402
Total	<u>5,607,807</u>	<u>62,156</u>	<u>120,031</u>	<u>5,549,932</u>
Less accumulated depreciation for:				
Building	475,445	37,961		513,406
Transportation equipment	3,236,764	273,810	61,266	3,449,308
Shop equipment	52,986	225		53,211
Furniture and fixtures	547,457	7,453	21,861	533,049
Total accumulated depreciation	<u>4,312,652</u>	<u>319,449</u>	<u>83,127</u>	<u>4,548,974</u>
Property and Equipment - Net	<u>\$1,295,155</u>	<u>\$(257,293)</u>	<u>\$ 36,904</u>	<u>\$1,000,958</u>

REGIONAL TRANSIT AUTHORITY (REGION III)
NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

3. PROPERTY AND EQUIPMENT - Continued

Property and equipment activity for the year ended June 30, 2014 was as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Land	\$ 39,164			\$ 39,164
Building	1,380,098		\$ 6,418	1,373,680
Transportation equipment	3,744,942		163,717	3,581,225
Shop equipment	53,418		207	53,211
Furniture and fixtures	<u>1,052,851</u>		<u>492,324</u>	<u>560,527</u>
Total	<u>6,270,473</u>		<u>662,666</u>	<u>5,607,807</u>
Less accumulated depreciation for:				
Building	443,766	\$ 38,097	6,418	475,445
Transportation equipment	3,006,588	393,893	163,717	3,236,764
Shop equipment	52,286	907	207	52,986
Furniture and fixtures	<u>1,032,182</u>	<u>7,599</u>	<u>492,324</u>	<u>547,457</u>
Total accumulated depreciation	<u>4,534,822</u>	<u>440,496</u>	<u>662,666</u>	<u>4,312,652</u>
Property and Equipment - Net	<u>\$1,735,651</u>	<u>\$(440,496)</u>	<u>\$</u>	<u>\$1,295,155</u>

4. GOVERNMENT ASSISTANCE

During the years ended June 30, 2015 and 2014, the Authority received federal, state, and local government support for the purpose of providing transportation services for the general public. Grants included in income were as follows:

	<u>2015</u>	<u>2014</u>
Federal:		
Section 5311 operating	\$685,930	\$629,657
Training reimbursement	11,495	13,315
Section 5317 operating		<u>1,630</u>
Total	<u>\$697,425</u>	<u>\$644,602</u>
State:		
Operating	<u>\$428,782</u>	<u>\$371,278</u>
Local:		
Local operating	\$140,004	\$129,143
Local capital	<u>33,853</u>	<u>49,101</u>
Total	<u>\$173,857</u>	<u>\$178,244</u>

REGIONAL TRANSIT AUTHORITY (REGION III)
NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

5. IN-KIND REVENUE AND EXPENSE

The Authority contracts with cities to provide intra-city transportation services. The in-kind revenue and expense amounts do not represent funds received or expended by the Authority. The amounts represent program revenues and expenses incurred by the contracting cities in excess of the contract amounts and have been included in this report to show the total income and cost of the program. The in-kind revenue and expense was \$368,317 and \$383,074 for the years ended June 30, 2015 and 2014, respectively.

6. PENSION AND RETIREMENT BENEFITS

Iowa Public Employees Retirement System

The Authority contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa 50306-9117.

For 2015 and 2014, plan members are required to contribute 5.95% of their annual covered salary, and the Authority is required to contribute 8.93% of covered salary. Contribution requirements are established by state statute. The Authority's contributions to IPERS for the years ended June 30, 2015, 2014, and 2013 were \$100,379, \$81,105, and \$84,295, respectively, equal to the required contributions for each year.

7. OTHER POST EMPLOYMENT BENEFITS (OPEB)

The Authority operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 10 active and no retired members in the plan. Participants must be age 55 or older and meet certain other requirements at retirement. Benefits terminate upon attaining Medicare eligibility. Coverage is provided through a fully-insured plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy. It is anticipated retiree premiums will be fully offset by monthly contributions.

8. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Authority assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

SUPPLEMENTAL INFORMATION

REGIONAL TRANSIT AUTHORITY (REGION III)
SCHEDULES OF PROGRAM EXPENSES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Advertising and promotion	\$ 11,454	\$ 16,195
Contract services	30,404	55,773
Payroll taxes and employee benefits	269,232	252,120
Repairs and maintenance	111,811	101,194
Fuel and oil	216,956	275,863
Insurance	154,385	168,684
Rent	9,025	8,981
Utilities	32,408	37,942
Miscellaneous	806	2,022
Salaries and wages	870,711	771,835
Office supplies and printing	20,990	22,911
Subscriptions, dues, and licenses	7,034	6,025
Travel and training	12,803	3,501
Service agreements	87,281	61,239
Physicals	5,532	7,176
Uniforms	3,740	7,331
Small equipment	<u>10,105</u>	<u>9,770</u>
 TOTAL PROGRAM EXPENSES	 <u>\$1,854,677</u>	 <u>\$1,808,562</u>

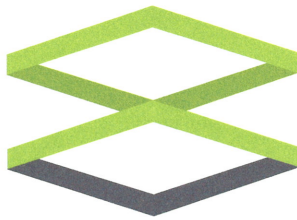
REGIONAL TRANSIT AUTHORITY (REGION III)
SCHEDULES OF ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Advertising and promotion	\$ 55	
Payroll taxes and employee benefits	106,306	\$ 98,047
Fuel and oil	658	2,761
Insurance	12,680	12,680
Salaries and wages	280,276	243,738
Subscriptions, dues, and licenses	1,471	1,160
Professional fees	19,707	25,456
Travel and training	16,425	20,688
Service agreements	<u>4,475</u>	<u>7,221</u>
 TOTAL ADMINISTRATIVE EXPENSES	 <u>\$ 442,053</u>	 <u>\$ 411,751</u>

REGIONAL TRANSIT AUTHORITY (REGION III)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Program Expenditures</u>
Indirect:			
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Formula Grants for other than			
Urbanized Areas:			
Section 5311	20.509	18-0031-030-15	\$ 685,930
Training reimbursement	20.509	Various	<u>11,495</u>
Total CFDA #20.509			<u>\$ 697,425</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Regional Transit Authority (Region III) and is presented in conformity with the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of the
Regional Transit Authority (Region III)
Spencer, IA 51301

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Regional Transit Authority (Region III) (a nonprofit organization), as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, and have issued our report thereon dated September 23, 2015.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered Regional Transit Authority's (Region III) internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Regional Transit Authority's (Region III) internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item II-A-15 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Regional Transit Authority's (Region III) financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Regional Transit Authority's (Region III) Response to Findings

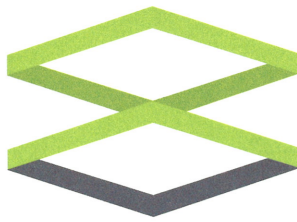
Regional Transit Authority's (Region III) response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Regional Transit Authority's (Region III) response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wintner, Stave & Co., LLP

September 23, 2015
Spencer, Iowa



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors of the
Regional Transit Authority (Region III)
Spencer, IA 51301

Report on Compliance for the Major Federal Program

We have audited Regional Transit Authority's (Region III) compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on Regional Transit Authority's (Region III) major federal program for the year ended June 30, 2015. Regional Transit Authority's (Region III) major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for Regional Transit Authority's (Region III) major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Regional Transit Authority's (Region III) compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the Authority's major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on the Major Federal Program

In our opinion, the Regional Transit Authority (Region III) complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of Regional Transit Authority (Region III) is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Regional Transit Authority's (Region III) internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Regional Transit Authority's (Region III) internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-15 to be a material weakness.

Regional Transit Authority's (Region III) response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Regional Transit Authority's (Region III) response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Wintner, Starnes & Co., LLP

September 23, 2015
Spencer, Iowa

REGIONAL TRANSIT AUTHORITY (REGION III)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

Part I: Summary of the Independent Auditors' Results

- (a) An unmodified opinion was issued on the financial statements.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was Formula Grants for Other than Urbanized Areas, CFDA Number 20.509.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Regional Transit Authority (Region III) did not qualify as a low-risk auditee.

REGIONAL TRANSIT AUTHORITY (REGION III)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
FOR THE YEAR ENDED JUNE 30, 2015

Part II: Findings Related to the Financial Statements

Internal Control Deficiency:

II-A-15 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Responsibility for the custody, record-keeping, and reconciling functions of revenues and expenses should be assigned to different employees. However, we noted one individual is primarily responsible for custody of receipts and performing record-keeping and reconciling functions, including those related to the federal program.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Regional Transit Authority (Region III) should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives to segregate duties where possible and will establish review procedures where complete segregation is not feasible.

Conclusion - Response accepted.

Instances of Noncompliance:

No matters were reported.

REGIONAL TRANSIT AUTHORITY (REGION III)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
FOR THE YEAR ENDED JUNE 30, 2015

Part III: Findings and Questioned Costs for Federal Awards

Instances of Noncompliance:

No matters were reported.

Internal Control Deficiency:

CFDA Number 20.509: Formula Grants for Other than Urbanized Areas

U.S. Department of Transportation, pass through the Iowa Department of Transportation

III-A-15 Segregation of Duties Over Federal Revenues - The Authority did not properly segregate custody, record-keeping, and reconciling functions for revenues and expenses, including those related to its federal program. See item II-A-15.